Swine Marketing: Changes and Opportunities

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I appreciate the opportunity to visit with you this morning about marketing for alternative swine production systems. Traditionally as producers we're very good at producing, and by golly, somebody will buy it: build it and they will come. You will be learning today about what can and cannot be produced in these [alternative] systems and how profitably it can be done. This is very important, but you've still got to sell the stuff. I think some of these alternative systems offer some challenges, and we're going to take a look at those. And they offer some opportunities that we have not seen for a long, long time. We're going to talk a little bit about those as well. So, we'll just get right into it.

There are certainly concerns about market access. The opportunities, niche markets, and so on are a part of it. I'm going to start out with the big picture to get you thinking about some of the bigger issues at hand within agriculture and marketing, and then bring it down to some farm level things that you're going to have to consider before you decide to make an investment in some of these systems.

Let's talk about some major shifts that are occurring in the marketplace. What's happening out there? We are moving to a knowledge-based society. Knowledge means turning data into information to make profitable decisions. Two centuries ago this country was founded in a muscle-based society. The strongest backs and the biggest teams of horses got the most work done and made the most money. There was a [financial] return to labor. Then came the industrial revolution and machines did the work. If you owned one machine, it made you this much money, and if you bought another machine, it made you that much more. Suddenly we became a capital-based society. Today we face a situation in which the return is not to labor or capital but to "smart." Smart people, making sound, knowledge-based decisions, will be profitable.

Take a look at Bill Gates in the computer industry. Bill Gates was not born a billionaire, he did not inherit a lot of farm land, and, if you see him, he doesn't look all that strong. But he had a vision and he had the knowledge to make decisions that made him profitable. Alternative swine production systems fit into this very, very well. If you have the information and the skills to do something a little bit different and get that return to management for being a little bit smarter than the next person, well, that's what it's all about.

Also, there's a change in the marketplace in that we're moving to a product orientation. We're no longer producing hogs sold on a live weight basis. We're producing food products for humans. So we're producing a product, and the quality of that product is becoming increasingly important. And it's going directly into the human diet. What you put in that pig goes into kids, and families, and elderly people. And I don't think we should lose sight of that.

Successful marketers are going to be those who monitor information about what consumers want and use knowledge to turn that information into profitable decisions to fill consumers' wants and needs. And as we think about making those decisions, let's talk about marketing a little bit. We're really talking about all activities from the point of production to the point of consumption. You enter into the marketing channel when you purchase inputs or when you sell an output. Consumers enter into the marketing channel when they make a choice. But you can define a market in three dimensions: products you sell and whether your hogs or your pork products differ from other hogs or pork products; the time; and the location. A 52% lean carcass delivered at 7 o'clock is different than one delivered at 11 o'clock. Time makes a difference, and the prices reflect that [premiums for early delivery] as well as where it's delivered. Is it a packing plant that has more hogs than it knows what to do with? Or is it a packing plant that doesn't have enough hogs to fill a chain? Is it a buying station or at the packing plant? So when we start thinking about making marketing decisions, there's really only three of them that you really need to worry about. *What* are you producing and selling? *When* are you going to sell it ? And *where* are you going to take it? It gets a little more complex than that, but in its purest form that's what we're talking about.

Now let's talk a minute about the marketing channel and the points of control. If we think about this conception to consumption marketing channel, where are the points of

control? Where does information come in and where can you do something about it? I would argue that there are two control points. One of them is at the starting point (particularly with the genetics) and the other control point is at the consumption end—the retailer interfacing with the consumer to find out what the consumer wants. For everything else in the middle (production, processing, distribution, retailing), we can hire it out to get it done.

Where are we going to get information about what consumers want? Someone's going to have to interface with them and send those signals down. How do we change (to meet) what the consumer wants? If it's leanness in taste, in quality-eating characteristics, genetics have a role. If it's *how* it is produced, which constitutes some of the opportunities I see in some of the alternative systems, we must relate that consumer desire back to how we produce. But for the most part, your control points are at each end. And in that knowledge-based system where information is crucial, that becomes important.

As we think about dividing that product up, we end up with a matrix. How is it presented—is it a branded product, a labeled product, is it just pork, or whole hog pork, or is it carcass freezer meat? How is it presented to the consumer? Then, is it in a domestic market or an export market? If it is in an export market, is that Japan, South Korea, Hong Kong, Latin America, Russia, Indonesia—where is it? And so that row goes all the way across. And *how* it is presented in each of those is a different market, very likely with different price levels.

What to produce (matrix)

	Domestic	Export/Country
Presented		
Processed		
Produced		

How it's processed makes it different. Is it ham or bacon retail? Is it a smoked pork chop or a fresh pork chop? Is it completely packaged, boneless, or is it carcass? And then how is it produced? Is there a difference if it is produced in an animal-friendly method or by an environmentally friendly method? Is it worth more if it is raised by left-handed Norwegians? In some places maybe it is, and then that makes it a separate product that doesn't have to compete directly with other pork on the market. So if you can successfully differentiate it, there are advantages.

Let's talk about when to sell. And let's start thinking about some of the alternative systems. By definition, there are a lot of alternatives. And so what I say about one isn't going to be true about another. You're going to have to think this through. But the when-to-sell question impacts a lot of things. One is the average weight. And that's somewhat a function of pig flow, genetics, what the packers are buying, and so on. I've argued a long time that the two factors that determine when we sell pigs is cash flow (when we need money), and pig flow (when we need the room). If that's true, then you don't really make any decisions, and you shouldn't be paid for making those decisions. There's not going to be any return there. It is only when you have the ability to make more money that it pays you to be making decisions.

In some of these systems, such as a pasture or batch system, you can choose the pig flow. Take these pigs to 270 or 280 pounds if the genetics are there, versus 230, depending on how it is from a pig flow standpoint. What genetics work, not only in the alternative system but as to which market we go into? We're going to look at some of the price differences on carcass premiums in minute, and then look at the packer system. Do they like light hogs, heavy hogs, fat hogs, lean hogs, close sort, wide sort? Another factor is the marginal cost to gain. What is the cost of taking those pigs a little heavier instead of selling today, if, say, I'm going to wait and sell next week or I'm going to sell two weeks from now? Right now is a very teachable moment in that. Is your optimal marketing weight today the same as it was a year ago? Is the weight you're actually selling at today the same as it was a year ago? Actually, no—you're selling them heavier today if you look at the statistics. Corn is $1.40 a bushel higher, and we're adding weight to those hogs. Again, if you have the flexibility to make a choice and to make a decision and you have the information and the knowledge to do that, that's where profits come from.

Also, in some of these alternative systems (and particularly depending on the pig flow), you may have a lower marginal cost to gain than someone else. The feed cost still goes up, but at an increasing rate as the pigs get bigger. But if you have no other use for those facilities because your next group of pigs is still 30 days out, the cost of that facility sitting there is free. Whereas if you've got another group pushing right behind it, it may be that there's nearly an infinite cost to hold those pigs another 10 days because you simply do not have the room. So the increased flexibility of some of these systems, if properly planned, allows you the ability to make profitable decisions.

We talked about feed efficiency. This is an old chart; I have not seen a new one.

Feed Efficiency for Added Pounds for Hogs

Sale Weight	Marginal FE
210	—
220	4.43
230	4.54
240	4.65
250	4.78
260	4.91
270	5.04
280	5.17
290	5.32
300	5.46

Source: Purdue Agricultural Economics Report, May 1989.

But the idea is that as weight goes up, the feed to put on a pound of gain goes up as well. Now, is that at 240 pounds and feed efficiency is 4.65, or is it 240 pounds and it's 3.5? We don't know, but the idea is that once those pigs get to 260, it's going to be more than it was at 240. So your costs go up at an increasing rate. The other factor that goes into when to sell are seasonal price patterns. You have seasonal prices and you have seasonal costs. What happens to pigs per litter or pigs marketed during the summer relative to other times of the year? I would argue that because of breeding during the previous summer your conception rates may be a little lower. Farrowing through the winter, your death rates may be a little higher. And those pens may be just a little bit more empty on your July marketings than they were on your April marketings. And the cost of producing those July pigs was probably higher than it was producing those April pigs. Now you can go back and work that out, and maybe it's not the case. But there is probably a cost difference. The other key point here is what is it you're after? High prices? Or high profits? I've talked to a lot of producers who are going to get the highest price they can, *no matter what it costs them*. But bragging rights do not buy groceries.

We talk about seasonal prices patterns. I think you're all familiar with these. This is the 86' through 95' period (see next page).

Table 3. Average price changes by bi-monthly period for Iowa-Southern Minnesota barrows and gilts.

From	To	Years Down	Down Average	Years Up	Up Average	1985-1994 % Change
January 1	January 2	3	-2.5	7	4.4	2.36
January 2	February 1	1	-1.3	8*	2.9	2.21
February 1	February 2	7	-3.7	3	3.2	-1.59
February 2	March 1	8	-4.3	2	2.2	-3.03
March 1	March 2	5	-2.9	5	4.7	0.89
March 2	April 1	7	-3.8	3	2.8	-1.82
April 1	April 2	2	-0.7	8	3.4	2.59
April 2	May 1	2	-0.4	8	6.5	5.11
May 1	May 2	0	0.0	10	5.8	5.76
May 2	June 1	4	-1.8	6	2.4	0.72
June 1	June 2	2	-6.2	8	4.6	2.41
June 2	July 1	5	-5.2	5	2.7	-1.26
July 1	July 2	3	-4.5	7	2.2	0.21
July 2	August 1	6	-3.1	4	1.9	-1.07
August 1	August 2	5	-4.2	5	2.0	-1.10
August 2	September 1	10	-6.0	0	0.0	-6.00
September 1	September 2	4	-4.4	6	5.8	1.73
September 2	October 1	7	-6.2	3	2.9	-3.50
October 1	October 2	5	-7.2	5	1.9	-2.65
October 2	November 1	10	-6.1	0	0.0	-6.12
November 1	November 2	5	-3.2	5	4.0	0.44
November 2	December 1	3	-1.6	7	4.7	2.83
December 1	December 2	6	-3.3	4	7.2	0.93
December 2	January 1	3	-2.4	7	3.7	-0.59

* One year showed no change

The middle line is the monthly price compared the annual average price. So for example, January prices are 95% of the annual average. July prices are at 110%. If all else is equal, when would you prefer to sell pigs? JULY. When would those pigs have to be farrowed? JANUARY. Does that fit a pasture system very well? NO. There is a cost associated with going with those higher prices; in fact, the cost of doing that is the reason for those higher prices. If it was simple to raise hogs to hit the July market, everyone would try to do it. But take this into account.

Getting back to our when-to-sell question: Do you have a group of pigs weighing 240, 235, and you can just barely get them in the bottom of the sort window? Say it's late April and you've got room. Do you sell them or do you wait an extra week? Or ten days? It's late April so you wait. Odds are the market is going up. Now, say you have the exact same load of pigs, and it is now August, September, or October. What do you do? Do you wait? In reality you make the same decision both times. Maybe it is pig flow that causes that to happen, but there are opportunities.

The expected return from feeding hogs to a heavier weight. Enter all prices as dollars per pound.

Present hog price	(HP)	= $40.00
Expected added weight (235 to 260)	(AW)	= $25.00
Cost of added weight (100 x 5.5)	(AC)	= $5.50
Expected final weight	(FW)	= 260
Lean and weight adjustment	(WD)	= .5
Expected price change	(PC)	= (?) + .8
Expected return per head from selling at a later date:		
AW x HP - (AW x AC) - (FW x WD) + (FW x PC)		= $5.08

The best answer may depend on corn prices—the cost of those additional pounds. And what's going to happen to the market? Let's say we start out with a $40 hog market, and we're thinking of holding them two weeks and putting 25 pounds on them. This is before we add $3.50 corn, and I said I could add those pounds for about $5.50 a head. The final weight is 260. I'm going to get a discount overall and that line (see chart) counts your sort loss, which may actually get better as your pigs get heavier because you get more of them in the optimal window. And as they get heavier, it will become more negative again. Also consider your lean premium. So if I hold them an extra two weeks, I may end up with more of them too fat and my price goes down. And then I'm expecting a

price change. We can go back and look at what price changes we might expect over that time period. We factor all that in and we end up with 25 pounds times 40 cents, $5.50 cost to gain, 260 times its discount (it's not just the last pound that gets discounted, it's every pound on the hoof or on the hook), and then we add in a price change. We end up with a $5.08 per head advantage to hold them in that example. Put in another set of figures and you get a different number, but my point is that *you actually stop and make a decision*.

Now the first thing that many people ask is, what happens if a pig dies? Build it in. Take that price times 99% because you're looking at 1% death loss. You can put the numbers in and come up with an answer. That's one way to look at the question of when to sell. These alternative systems are going to have more opportunities for making those kinds of decisions than many of our traditional, continuous-flow, pipeline systems where pig flow determines the marketing rate.

Let's also look at where to sell. You can go to the plant, the buying station, or there are marketing networks out there. One of the questions we need to ask is are we selling live weight or carcass? And one of the factors that comes into play is shrink. We don't worry a whole lot about it because we are in a carcass world. You have the opportunity to sell on live pounds and based on the average of your last three loads. But what happens with shrink? Do you get shrink in the live animal? When does it occur? As soon as you go to drive them, right? They stand up go to the bathroom and you lose 45 cents a pound, right there! That's live weight shrink. How many of your loading chutes are nice and clean and dry? How many of your trucks are clean and dry when you get all done? That's shrink. You don't get paid for that.

How much does a carcass shrink from the time it leaves your farm until it's hung? I haven't seen any research lately, but we tend to think about 8 to 12 hours off water before we start to see any shrink. So that carcass weighed the same when you put it on the truck as it did when it was killed as it did when it was at the plant 150 miles away, if that happened to be your best market.

We are selling on carcass merit anyway. I strongly encourage you to take a look at selling them on the actual carcass pounds, rather than live pounds based on past performance. It's another factor to think about in these alternative systems. Let me give you the scenario. On the batch system let's take a pasture farrowing operation where I

sell a lot of hogs but over a two- or three-month period. What's my history when I show up with the first load of hogs? I don't have one to begin with, so what's the buyer going to do? He's going to be very, very conservative, if he buys them at all. He's going to bid low. What's the first hog that's going to be marketed? The fastest-growing barrows. What's the nature of fast-growing barrows? They're the fattest thing on the farm. So the fattest hogs you've got set the price for the next load of hogs you sell, and your bid's going to be lower. And you've got a three-load average, so those are going to carry over to when you get into the gilts. Finally the really lean gilts that were the slow-growing ones get there and they're still paying the barrows' price. You're done selling, and next year you come back and start over.

Comparing Bid Prices

	A $/cwt	B $/cwt
(a) Bid price	_____	_____
(b) Transportation cost	_____	_____
(c) Shrink (% x bid price)	_____	_____
(d) Marketing costs	_____	_____
Net farm price	=_____	_____

You will run into that same type of cycle any time you're in the batch system. With all in and all out you can get a bit of that. No matter whether it's a 2,400-sow totally confined unit, in which you get 1,000 pigs every eight weeks, or a pasture system, you get into that cycle. So, I'd like for you to strongly consider selling them on carcass pounds.

Where do you sell them? This raises the market access question. Any place you want in Iowa. In late summer 1994 there were 200 buying stations and 11 packing plants. We took a hypothetical producer in each of four quadrants of the state and drew a 50-mile radius around each of those farms. They had five or six different companies within 50 miles. If you went out 100 miles it was six or seven companies. Iowa has tremendous market access.

As Lauren Christian mentioned, we produce 25 – 26 million head a year and we kill about 32 million. These packers tend to bid on just about anything that squeals. The trouble is that they only pay you what it is worth. Lean pigs get more and fat pigs get less. We did some research on this market access issue. There are a couple of other factors that have some influence. If we have time we'll take a look at those.

Load size: As I've been saying for years, the size of the truck does not make a difference. Big trucks don't get big prices and little trucks don't get little prices. I've been enlightened that there *is* some difference if you're selling less than 12 at a time, because you get less money than someone who is selling 12 or more. But there is no difference for those selling 13 – 40 and over 40—maybe 8 cents a hundredweight, which probably isn't statistically different. But if you're going to deliver them in the trunk of your car, you're going to take a lower price. If you can fill a goose neck and hit one of these markets, you're probably going to do okay.

As I said, we're selling carcass merit. We talked about the leanness issue. As we've also mentioned, it's actual weight versus history. Right now, what we are marketing on is carcass lean, either measured at the tenth rib, the last rib, or percent lean basis. We're selling on carcass weight, and there is an optimal weight range outside of that where you get your sort discount. In the future we will begin basing prices on some of these other measures. Technology-wise, Lauren can give you a better handle on what these will be. From a packer's perspective, I would think water-holding capacity would be very important and one that I would want to focus on. What is water holding capacity? It's the amount of drip that falls out of the carcass while it is in the cooler or out of the cuts. That's a whole lot like your live weight shrink, in that they paid you for a 180-pound carcass, and, while it was chilling, before they started cutting, two percent of it dripped off on the floor. Two percent of 180 pounds at 60 cents a pound starts to be a pretty expensive puddle. And they have an incentive to try to share that with you. So we will start measuring on some of these other characteristics.

This is the carcass hog market (see next page). It is the western corn belt price report, put out twice daily. It includes Iowa, Minnesota, Missouri, South Dakota, Nebraska and other states. It's kind of like a kill sheet. This was the close issued at 2 o'clock. There is an 11 o'clock report that gives the preliminary of what was the morning trade. Then they finalize it. We've got a measure of leanness in the columns, either percent lean or tenth rib back fat or last rib back fat. Whatever measurement you use, in the rows we've got the carcass weight ranges. And in the intersection of these, you have the price paid for carcasses in that weight range. Note that price range is 49 – 50 % lean carcasses, 170 – 191 pounds. That is not a small fat hog versus a big lean hog. Those hogs are in a very narrow range. What are the two numbers? And how far apart are they? Somewhere in the western corn belt there was $7/hundredweight difference paid on the same hog. The same day! There may be a marketing opportunity there. Now you say that's a 20-pound

NW LS232 Federal-State
Des Moines, Iowa Monday, February 19, 1996 As of 2:00pm

Western Cornbelt Lean Value Direct Hog Trade (close)
Hot Carcass Value Information Based On Individual Packers
Lean Value Buying Programs and Weight Differentials - Plant Delivered
Trend: steady to .76 higher.
Receipts: Today 70,000 Week Ago: 72,000 Year Ago: 80,000

pct Lean	41-42	43-44	45-46	47-48	49-50	51-52	53-54	55-56	57-58	59-60
Carcass				-Value Differentals-						
Weight &	-7.50	-7.50	-4.00	0.00	0.00	2.50	3.25	3.75	4.75	3.06
Diffrntal	-3.75	-2.00	-0.50	0.00	3.00	4.00	6.00	8.00	8.00	8.00
140-154lbs										
-12.24	31.21	35.38	37.82	40.26	41.40	41.40	41.40	41.40	41.40	41.40
-2.97	57.95	61.81	61.81	64.44	64.44	67.07	69.70	71.67	71.67	71.67
155-162lbs										
-2.97	46.36	48.80	51.24	53.68	56.12	57.34	58.56	59.70	59.70	59.70
0.00	61.15	68.85	64.13	65.75	66.63	68.38	71.01	72.99	72.99	72.99
163-169lbs										
-1.35	50.96	54.29	56.12	58.56	59.78	61.00	62.22	63.44	64.66	65.40
0.00	61.83	68.85	64.33	66.41	66.63	69.04	71.01	72.99	72.99	72.99
Base										
170-191lbs				- Summary Base -						
0.00	51.60	56.12	58.56	59.78	61.00	62.22	63.44	64.66	65.88	67.10
0.00	62.50	64.44	65.00	67.07	68.00	70.00	72.00	72.99	72.99	72.99
**2-199lbs										
0.00	52.23	56.12	58.56	59.78	61.00	62.22	63.44	64.66	65.88	67.10
0.00	60.88	64.44	65.00	67.07	68.00	70.00	72.00	72.99	72.99	72.99
200-207lbs										
0.00	51.60	54.90	57.34	59.78	61.00	62.22	63.44	64.66	65.88	67.10
0.00	61.67	64.67	67.67	67.67	69.67	71.67	72.00	72.99	72.99	72.99
208-222lbs										
0.00	47.01	50.01	52.51	53.51	54.26	55.51	56.51	57.51	58.51	60.51
-3.00	63.00	67.00	69.00	69.00	71.00	71.67	71.67	72.99	72.99	72.99
Backfat 10th Rib Inches >	More Than 1.40	Less Than 1.40	Less Than 1.25	Less Than 1.15	Less Than 1.00	Less Than .90	Less Than .75	Less Than .60->	---->	---->
Milimeter	36mm	36mm	32mm	30mm	26mm	23mm	20mm	15mm		
Backfat in last Rib Tenths >	More Than 1.5	Less Than 1.5	Less Than 1.3	Less Than 1.2	Less Than 1.1	Less Than 1.0	Less Than .8	Less Than .60->	---->	---->

Primary basis for values above is lean, determined on individual packer fat measurement which may be adjusted for superior or inferior muscling.
Source: USDA-IA Dept of Ag Market News, Des Moines, Larry Johnson
515-284-4460
2:00c llj

weight range and some may discount anything under 180, and some may pay a premium for 50% lean over 49%. At another point there is a seven-pound weight range and there is still a $6 – $7 difference. The message here is that you need this information to make knowledgeable decisions.

Now I'm sure you're going to learn today about how lean hogs can be raised in some of the alternative systems. That has been one of the key concerns about going to a new system, confinement system, or that if genetics can be changed, they won't hold up in my system. I'll let you worry about how fat they are. But this is the extreme case: let's say we have a pig that's 41 – 42 percent lean, 140 – 154 pounds. Nobody raises these, they just show up mysteriously at the packing plant everyday! But there is $31 – $58 per hundredweight price difference between packers. So if you've got bad hogs, you have to be a really good marketer.

If we have a 200-pound carcass 53 – 54 percent lean, it would be $63 – $72. The point is that if you've got the worst price on the good hog—$63 in one instance and the best price, $58, for the fat hog—you're still within $5. What's the flip side of that argument? $31 – $72/hundredweight. Let's say you had a 150-pound hog that hit this bottom price. That animal's entire miserable life would be worth about $46. Not per hundredweight, but the entire pig, not a feeder pig. The other pig had a 200-pound carcass worth (72 x 200), or $144. This is nearly $100 difference in the value of those two pigs. Now was the first pig $100 cheaper to produce? Probably not. But remember what I said earlier, we want high profit, not high price. You think, gee, the 49% – 50% lean price is at $68; if I could just get them this lean (51 – 52%), there is another potential $2.50 here and $4 there, and it only cost me $6 more to raise them that lean. That's not a good move. So what we may find is that the most profitable place to raise them is somewhere in this range or the next weight down. You may give up $1 or $2 on the selling end but if you can raise them $3, or $4 or $5 cheaper, why worry? The key is to know your hogs, the kill sheets, and how they may differ under these systems. Secondly, what are the packers wanting, and what are they willing to pay for it?

Where are some opportunities? Let's divide this into two places. Let's talk about the current commodity market. You're in a commodity business if you're just selling carcasses. They sell on grade and yield or grade and weight, just as we saw, but basically pork carcasses are the commodity. The focus is on profit, not price. So maybe you should give up a dollar or two on the selling end as long as you are picking up more than

a dollar or two on the cost end. Weigh those two factors. If the alternative system you're looking at is batch farrowing or pasture farrowing where you're coming up with loads of 40 head or more, use that to your advantage. Bid lots of packers, particularly here in Iowa. There are buying stations all around you and there are a lot of packers here. Again, use that to your advantage. Look at the economics of it. But certainly if you've got a low investment in those facilities, you've got the opportunity to push the pigs to heavier weights. And the Iowa markets are a clear-cut advantage.

What are some of the challenges to the commodity markets? Market risk of the batch flow. You're no longer selling pigs every week and getting the average for the year—or even every month, in some instances. You may just be selling a week or let's say a month here and a month some other time. If you happen to have some low prices then, you're going to have some problems. Futures and options can help you there. Those are tools to be managed, and if you want a return to management, there is a tool that will help you do it.

Dependability of supplies: If a packer sees you just once a year, is he going to start discounting for that? Maybe yes, maybe no. It depends on whether you show up when he needs hogs or when he doesn't. And pricing on history can be a problem.

Alternative markets: There are some opportunities to take advantage of in these alternative markets. The commodity market is your floor and there is upside potential in specialty markets. You've always got a commodity product if it doesn't pan out. So it reduces some of your risk on that side; however, the challenges there are market development. You can produce a hog that is different from anyone else's because of the way it was raised or who was raising it. But how are you going to get it sold? Are you going to do it? Are you going to wait for the packers to do it? Are you going to wait for some retailer to demand it? How do you get that premium up the line?

If you think about that marketing channel, you can eliminate one of those persons in the middle. However, someone has to perform the functions of having the pig processed, cut, delivered, packaged, and sold to the consumer. If you take over those functions, you need to get paid for them. Do you have any expertise in those functions? Can you work with someone who does? What about the product specs in monitoring? A good example is the Berkshire Gold program. Who sets the specs and who is going to control it?

A branded product is much the same. Let's say we have a small family of left-handed Norwegians raising this pork. They feel it's worth more than anybody else's, and they are going to develop their own brand. How will they get it sold? They may be able to produce and brand it, but how do they get that spot in the store? It can be tough sometimes.

I think we can learn some lessons from Premium Standard. In 1994 they came out with a branded product when IBP was buying hogs for 27 cents, killing them cheaper than anywhere else in the world and trying to go into New York City and compete against IBP. They had to convince a retailer who's been with IBP for 15 years to set that product aside and make room for a Premium Standard product. Now how successful do you think they were at that? It can be done. But it is a challenge.

Product flow: Tell the retailer that it will be there for three months in the summer when you sell pigs, but then that's it for the year. If you can get a premium, you can probably double the value on pork chops. What do you do with the rest of the pig? I think that's one of the challenges as well.

Question:
Where do we get information about what consumers want?
The information you base this on comes from the media. As for the consumer interface, I think if you are making an investment, you want to base it on more than just newspaper articles. This environmental scanning is important to see what they're thinking about. But before you go out and develop a product, because four out of five articles said this was important, go in and test market. Go into an area with the same demographics and give it a try. It's more than just reading newspapers. And that's where we run into challenges. You're good at what you do, but now you're going to do something entirely different.

I talked to a guy just the other day who is putting together a very large sow unit. They're talking about building a packing plant, and he said that he didn't have a clue as to what is going on up the line. Pork producers are very good at producing, but they don't know much about killing hogs and retailing. I said it's kind of like manufacturing cars; do you guys know about manufacturing cars? It's totally different. His comment was, yes, but they drive cars so they think they know how to build them. It's a very different world. It takes a lot of intestinal fortitude and a lot of information to carry it off. At some point there's going to be a pretty substantial reward for those people who do it—payment to the entrepreneur, not to the producer who may happen to produce hogs.